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## **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UMNGENI MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the financial statements of the uMngeni Municipality set out on pages xx to xx, which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the uMngeni Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

8. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2012

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have been restated as a result of an error discovered during 30 June 2013 in the financial statements of the uMngeni Municipality at, and for the year ended, 30 June 2012.

#### **Irregular expenditure**

9. The municipality incurred irregular expenditure of R3,845 million as disclosed in note 47 to the financial statements, as the expenditure incurred was in contravention of the Local Government: Municipal Supply Chain Management Regulations, 2005 (MSCMR).

#### **Fruitless and Wasteful expenditure**

10. As disclosed in note 46 to the financial statements, Fruitless and Wasteful Expenditure of R650 300 was incurred as a result of penalties charged on late payments.

#### **Additional matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited supplementary schedules**

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on page xx to xx of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

16. The material findings are as follows:

#### **Usefulness of annual performance report**

##### **Measurability**

##### **Performance Indicators not well defined**

17. The National Treasury Framework for managing programme performance information (FMPPI) requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators in relation to basic service delivery, good governance and public relations and community and social development were not well defined in that clear, unambiguous data definitions were not

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available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

#### **Indicators not verifiable**

18. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators in relation to basic service delivery, good governance and public relations and community and social development were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection and storage of actual performance information.

#### **Additional matter**

19. I draw attention to the matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

#### **Achievement of planned targets**

20. Of the total number of 229 targets planned for the year, 62 of targets were not achieved during the year under review. This represents 27% of total planned targets that were not achieved during the year under review. This is due to a lack of effective monitoring and timely identification of under-performance against service delivery targets

#### **Compliance with laws and regulations**

21. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

#### **Annual financial statements**

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of property, plant and equipment, accounts payable, accounts receivable, revenue and the cash flow statement by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Procurement and contract management**

23. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations as required by Municipal Supply Chain Management Regulations (Municipal SCM Regulation) 17(a) & (c).

#### **Expenditure management**

24. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
25. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA.

#### **Internal control**

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that

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resulted in the basis for opinion, the findings on the annual of performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

27. The accounting officer, management and the municipal council did not exercise oversight responsibility over the annual performance report and compliance with key legislation.

### **Financial and performance management**

28. The accounting officer did not implement a proper record management system for the maintenance of documentation supporting the reported performance and financial information. There was inadequate annual review of the fixed asset register to ensure that items of property, plant and equipment are accurately valued and disclosed in the financial statements and inadequate controls over the monthly processing and reconciliation of creditors.

### **Governance**

29. The internal audit unit and the audit committee did not perform adequate reviews of compliance with laws and regulations and the usefulness of the annual performance report.

*Auditor-General*

Pietermaritzburg

30 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*